

SPACE FLORIDA
(A COMPONENT UNIT OF
THE STATE OF FLORIDA)

FINANCIAL STATEMENTS
FOR THE PERIOD FROM INCEPTION
(SEPTEMBER 1, 2006) TO JUNE 30, 2007

SPACE FLORIDA

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June 30, 2007

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Hoyman Dobson

Independent Auditor's Report

The Board of Directors
Space Florida
Cape Canaveral, Florida

We have audited the accompanying basic financial statements of Space Florida as of June 30, 2007 and for the period from inception (September 1, 2006) to June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of Space Florida's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Space Florida as of June 30, 2007 and the changes in its financial position and its cash flows thereof for the period from inception (September 1, 2006) to June 30, 2007 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2007 on our consideration of Space Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Certified Public Accountants

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Space Florida's basic financial statements. The schedule of travel, entertainment and incidental expenses on page 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

The accompanying schedule of expenditures of state financial assistance on page 35 is presented for purposes of additional analysis as required by Chapter 10.550, Rules of the Auditor General, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



Hoyman Dobson

Melbourne, FL

September 28, 2007

Management's Discussion and Analysis

As management of Space Florida, we offer readers of Space Florida's financial statements this narrative overview and analysis of the financial activities of Space Florida for the period from inception (September 1, 2006) to June 30, 2007.

Space Florida serves as the State's single point of contact for state aerospace-related activities with federal agencies, the military, state agencies, businesses and the private sector. Space Florida is responsible for aerospace-related infrastructure development, industry recruitment, and education/research in partnership with federal agencies and private industry; for providing leadership for development of space transportation infrastructure; and for implementation of space commercialization and development programs.

Financial Highlights

- Effective September 1, 2006, Pursuant to Chapter 2006-60, Laws of Florida, a law enacted by the Florida Legislature during its 2006 Regular Session, Space Florida was created as an independent special district and subdivision of the State.
- Effective September 1, 2006, the remaining assets and liabilities of the Florida Space Authority, the Florida Aerospace Finance Corporation and the Florida Space Research Institute were transferred to Space Florida. The total net assets transferred were \$41,252,925.
- The assets of Space Florida exceeded its liabilities from the period of inception (September 1, 2006) to June 30, 2007 by \$44,931,573 (net assets). Of this amount, \$8,243,507 (unrestricted net assets) may be used to meet Space Florida's ongoing obligations to citizens and creditors.
- Space Florida's total net assets increased by \$44,931,573. Approximately 92 percent of this increase is attributable to the initial transfer of net assets at inception of \$41,252,925.
- From the period of inception (September 1, 2006) to June 30, 2007, unrestricted net assets were 118 percent of total operating expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Space Florida's basic financial statements. Space Florida's basic financial statements are comprised of two components: financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The basic financial statements report information using the full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

The statement of net assets presents information on all of Space Florida's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets may serve as an indicator of the financial status of Space Florida.

The statement of revenues, expenses, and changes in fund net assets, presents information showing how Space Florida's net assets changed from the period of inception (September 1, 2006) to June 30, 2007. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows presents changes in cash and cash equivalents from operational, financing, and investing activities. This statement presents cash receipt and disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The basic financial statements can be found on pages 12-15 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and thus are an integral part of these financial statements. The notes to the financial statements can be found on page 17-23 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information. This supplementary information can be found on pages 27 and 35 of this report.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial status. Assets exceeded liabilities as of June 30, 2007 by \$44,931,573.

The following table reflects the condensed statement of net assets.

Space Florida Net Assets

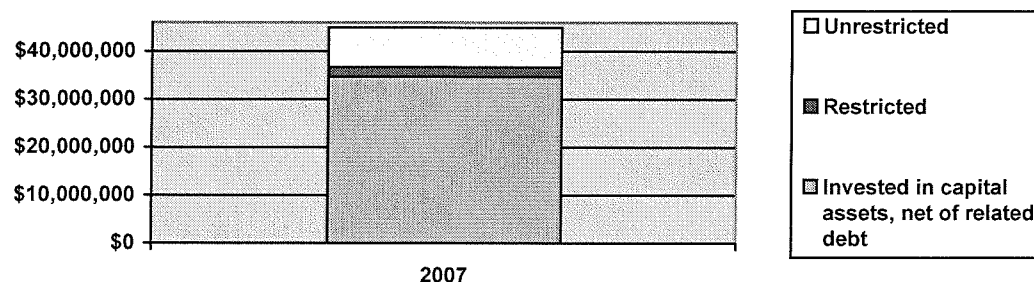
	2007
Cash	\$ 8,364,946
Receivables	1,872,489
Other current assets	154,585
Capital assets	34,683,909
Other assets	1,085,092
Total assets	46,161,021
Liabilities	1,229,448
Total liabilities	1,229,448
Net assets:	
Invested in capital assets, net	
Of related debt	34,683,909
Restricted	2,004,157
Unrestricted	8,243,507
Total net assets	\$ 44,931,573

The largest portion of Space Florida net assets as of June 30, 2007 (77 percent) reflects its investment in capital assets (e.g., buildings, equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. Although Space Florida's investment in its capital assets is reported net of related debt above, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of Space Florida net assets as of June 30, 2007 (4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet Space Florida's ongoing obligations.

As of June 30, 2007, Space Florida was able to report positive balances in all three categories of net assets.

Net Assets



The following table shows condensed revenue and expense data:

Space Florida Changes in Net Assets

	(in thousands)
	2007
Operating revenues:	
Fees and charges for services	\$ 1,879,659
State appropriated funding	6,400,559
Total operating revenue	8,280,218
Non-operating revenues:	
Grant revenue	2,224,859
Other	939,601
Total non-operating revenues	3,164,460
Total revenues	11,444,678
Operating expenses:	
Business development	654,127
Educational research development and workforce activities	520,000
Operations	3,796,642
General, administrative and depreciation	2,027,518
Total operating expenses	6,998,287
Non-operating expenses	
Total non-operating expenses	767,743
Total non-operating expenses	767,743
Total expenses	7,766,030
Change in net assets before transfer of net assets at inception	3,678,648
Net assets transferred in at inception	41,252,925
Change in net assets	44,931,573
Net assets – beginning	-
Net assets – ending	\$ 44,931,573

Changes in Net Assets. Beginning with the initial transfer of net assets at inception of \$41,252,925 Space Florida grew its net assets balance to \$44,931,573 by June 30, 2007. The internally generated amount was a net of \$3,678,648 consisting of \$1,281,931 from operations and a net of \$2,396,717 from non-operating revenues and expenses, including \$2,224,859 of other grant revenues.

Operating revenues totaled \$8,280,218 and were primarily provided by State appropriated funding (72 percent of total revenues), with the remaining being generated from fees, charges for service, and interest.

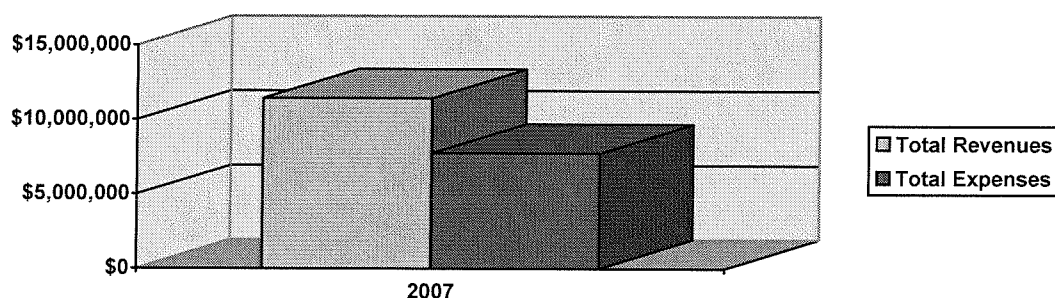
Operating expenses totaled \$6,998,287 with 54 percent expended on operations consisting of support for the execution of Space Florida's responsibilities as a state-created entity, including administration, facilities management, and policy-related responsibilities.

Space Florida's strategic goal is to operate as a high performance public sector organization. In addition, an important element of Space Florida's mission is to promote federal and state policies that increase space enterprise within the state. Related to ownership and management of the operation and its facilities depreciation totaled 1,482,662 for the period from inception (September 1, 2006) to June 30, 2007.

As directed by statute, Space Florida is also responsible for fostering the growth and development of a sustainable and world-leading aerospace industry in the state and thus is responsible for accelerating the growth and diversification of aerospace-related economic development throughout the state. During the period from inception (September 1, 2006) to June 30, 2007, Space Florida expended 9 percent of its operating expenditures to create and direct activities and programs that retain, attract and help expand aerospace businesses in Florida.

Lastly, 7 percent was expended on innovative educational, research and development, and workforce development projects. Working with partners such as the Florida Department of Education, Space Florida was able to launch innovative education program targeted towards the improvement of science, technology, engineering and math in K-20 students. In addition, Space Florida has provided discerning funding of aerospace research and development activities and has played a key role in efforts with aerospace workforce development including transition from the Shuttle program to the Constellation Program.

Total Revenues and Expenses



Capital Asset and Debt Administration

Capital assets Space Florida's investment in capital assets as of June 30, 2007 amounted to \$34,683,909 (net of accumulated depreciation). This investment in capital assets includes buildings, improvements and equipment.

Space Florida Capital Assets (net of depreciation)

	2007
SRMU storage facility	\$ 8,162,711
RLV hangar and office space	2,571,114
Space Life Sciences Lab	23,406,170
Furniture, equipment and vehicles	285,956
Construction in progress	257,958
Total	\$ 34,683,909

Additional information on Space Florida capital assets can be found in Note 5 on page 20 of this report.

Requests for Information

This financial report is designed to provide a general overview of Space Florida's finances for all those with an interest in Space Florida's financial operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Space Florida, SPFL Building M6-306, Room 9030, Kennedy Space Center, Florida, 32899.

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BASIC FINANCIAL STATEMENTS

SPACE FLORIDA

Statement of Net Assets

June 30, 2007

ASSETS

Current assets

Cash

Unrestricted \$ 5,646,696

Restricted 2,718,250

Accounts receivable 241,239

Accrued interest receivable 31,106

Due from governments 1,600,144

Other current assets 154,585

Total current assets 10,392,020

Noncurrent assets

Capital assets (net of accumulated depreciation):

SRMU storage facility 8,162,711

Reusable Launch Vehicle (RLV) hangar and office space 2,571,114

Space Life Sciences Lab 23,406,170

Furniture, equipment and vehicles 285,956

Construction in progress 257,958

Other noncurrent assets 1,085,092

Total noncurrent assets 35,769,001

Total assets 46,161,021

LIABILITIES

Current liabilities

Accounts payable 320,207

Accrued expenses 7,232

Salaries payable 20,956

Deferred revenue 115,501

Accrued retirement payable 26,076

Accrued compensated absences 25,383

Payable from restricted assets:

Accounts payable 714,093

Total current liabilities 1,229,448

Total liabilities 1,229,448

NET ASSETS

Invested in capital assets, net of related debt 34,683,909

Restricted for:

Special purpose 2,004,157

Unrestricted 8,243,507

Total net assets \$ 44,931,573

The accompanying notes are an integral part of these financial statements.

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SPACE FLORIDA

Statement of Revenues, Expenses and Changes in Net Assets

For the period from inception (September 1, 2006) to June 30, 2007

Operating revenues	
Fees and charges for services	\$ 1,879,659
State appropriated funding	6,400,559
Total operating revenues	<u>8,280,218</u>
Operating expenses	
Business development activities	654,127
Educational research development and workforce activities	520,000
Operations	3,796,642
General and administrative	544,856
Depreciation	1,482,662
Total operating expenses	<u>6,998,287</u>
Income from operations	<u>1,281,931</u>
Non-operating revenues (expenses)	
Interest income	163,117
Other grant revenue	2,224,859
State permitted retention of unused grant funds	776,484
Loss on disposal of capital assets	(130,965)
Impairment loss (Note 5)	(636,778)
Total non-operating revenues (expenses)	<u>2,396,717</u>
Change in net assets before transfer of net assets at inception	3,678,648
Net assets transferred in at inception (Note 2)	<u>41,252,925</u>
Change in net assets	44,931,573
Net assets, beginning of year	-
Net assets, end of year	<u><u>\$ 44,931,573</u></u>

SPACE FLORIDA

Statement of Cash Flows

For the period from inception (September 1, 2006) to June 30, 2007

Cash flows from operating activities:

Cash received from customers and users	\$ 1,593,106
Cash paid to suppliers for goods and services	(4,129,716)
Cash payments to employees for services	(715,350)
Operating grant receipts	<u>4,802,853</u>
Net cash provided by operating activities	<u>1,550,893</u>

Cash flows from noncapital financing activities:

Cash transferred in at inception	<u>4,582,270</u>
Net cash provided by noncapital and related financing activities	<u>4,582,270</u>

Cash flows from capital and related financing activities:

Capital related grant receipts	2,224,859
Purchase and construction of capital assets	<u>(156,193)</u>
Net cash provided by capital and related financing activities	<u>2,068,666</u>

Cash flows from investing activities:

Interest received	<u>163,117</u>
Net cash provided by investing activities	<u>163,117</u>

Net increase in cash	8,364,946
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Cash, beginning of year	<u>-</u>
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Cash, end of year	<u><u>\$ 8,364,946</u></u>
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Cash for the purposes of this statement consists of the following at June 30, 2007:

Cash	\$ 5,646,696
Restricted cash	<u>2,718,250</u>
Total cash	<u><u>\$ 8,364,946</u></u>

SPACE FLORIDA

Statement of Cash Flows (continued)

For the period from inception (September 1, 2006) to June 30, 2007

Reconciliation of income from operations to net cash provided by operating activities:

Income from operations	<u>\$ 1,281,931</u>
Adjustment to reconcile income from operations to net cash provided by operating activities	
Depreciation expense	1,482,662
(Increase) decrease in assets:	
Accounts receivable	(132,961)
Accrued interest receivable	(31,106)
Due from other governments	(1,597,706)
Other current assets	67,978
Increase (decrease) in liabilities:	
Accounts payable	149,063
Accrued expenses	(9,479)
Accrued compensated absences	25,383
Salaries payable	19,737
Deferred revenue	(122,486)
Accrued retirement payable	26,076
Due to other governments	(57,422)
Accounts payable from restricted assets	449,223
Total adjustments	<u>268,962</u>
Net cash provided by operating activities	<u><u>\$ 1,550,893</u></u>

Supplemental schedule of noncash activities:

Noncash assets and liabilities transferred to Space Florida at inception:

Receivables	\$ 108,278
Due from other governments	2,438
Prepaid expenses	222,563
Capital assets	36,520,163
Other noncurrent assets	1,085,092
Accounts payable	(171,144)
Accrued expenses	(16,711)
Salaries payable	(1,219)
Deferred revenue	(237,987)
Unused grant funds	(833,906)
Accounts payable from restricted assets	(6,912)
Total	<u><u>\$ 36,670,655</u></u>
Noncash loss on disposal of assets	<u><u>\$ (130,965)</u></u>
Noncash impairment loss	<u><u>\$ (636,778)</u></u>
Noncash state permitted retention of unused grant funds	<u><u>\$ 776,484</u></u>

The accompanying notes are an integral part of these financial statements.

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SPACE FLORIDA

Notes to Financial Statements

June 30, 2007

NOTE 1 – TRANSFER IN OF NET ASSETS AT INCEPTION

Effective September 1, 2006, pursuant to Chapter 2006-60, Laws of Florida, a law enacted by the Florida Legislature created Space Florida, an independent district and subdivision of the State, to be the single point of contact for aerospace-related activities within the State. The same law dissolved the Florida Space Authority, the Florida Aerospace Finance Corporation, and the Florida Space Research Institute. Based on the decision to dissolve, or effectively liquidate, the three entities, the carrying amount of assets and liabilities for those entities were adjusted from their historical basis to amounts equal to the fair value expected from their realization or settlement from the period of inception (September 1, 2006) to June 30, 2006.

Effective September 1, 2006, the remaining assets and liabilities of the Florida Space Authority, the Florida Aerospace Finance Corporation and the Florida Space Research Institute were transferred to Space Florida. The total net assets transferred to Space Florida at September 1, 2006 were \$41,252,925.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY - Space Florida is an independent special district, a body politic and corporate, and a subdivision of the State of Florida, which was created pursuant to the Space Florida Act, Sections 331.301-331.369, Florida Statutes, as amended. Space Florida's purpose is to foster the growth and development of a sustainable and world-leading aerospace industry in the State of Florida. Space Florida accomplishes its purpose by promoting aerospace business development, facilitating business financing, spaceport operations, research and development, workforce development, and innovative education programs. Space Florida is not considered an "agency" of the State for budgeting, as defined in Florida Statutes 216.011 and 287.012.

The governing body of Space Florida consists of a Board of Directors with twelve voting members appointed by the Governor, five statutorily designated voting members and two ex-officio, nonvoting members. One of the ex-officio members is appointed by the President of the Senate and must be a member of the Senate, and the other ex-officio member is appointed by the Speaker of the House of Representatives and must be a member of the House of Representatives.

The Board of Directors accomplishes its oversight of Space Florida through its appointment of a President who implements the policies and directives of the Board of Directors. The President is responsible for the management of the operations of Space Florida.

Space Florida has the authority to purchase or construct facilities, to set rates, fees and charges for the use of facilities and to undertake joint financing with municipalities or private sector entities for projects. Space Florida also has the power to issue bonds and other instruments of indebtedness. The full faith and credit of the State of Florida does not secure any bonds issued by Space Florida.

SPACE FLORIDA

Notes to Financial Statements

June 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION - Space Florida's financial statements are reported using the economic resources measurement focus, which is concerned with the inflow and outflow of resources that effect an entity. The Statement of Net Assets reflects those resources available to meet current obligations and to be used in the delivery of goods and services in subsequent periods. The Statement of Revenues, Expenses and Changes in Net Assets summarize those resources received and those consumed during the current period. The fund distinguishes between operating and non-operating revenues and expenses. Operating revenues generally result from leases, administrative fees, and operating grants. Operating expenses include the costs for space business development activities, educational research development and workforce activities, operations, administrative expenses and depreciation. All revenues and expenses not meeting the definition of operating are reported as non-operating revenues and expenses.

Space Florida is applying all applicable GASB pronouncements and only FASB Statements and Interpretation, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

As stated previously, Space Florida accounts for all of its activities within one enterprise fund.

USE OF ESTIMATES – The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Upon settlement, actual results may differ from those estimates.

CASH – Is cash on hand and demand deposits that are restricted and unrestricted.

OTHER CURRENT ASSETS – Consist of deposits and prepaid expenses.

RESTRICTED ASSETS – Consist primarily of cash received and unexpended in connection with a specific State-funded project.

OTHER NONCURRENT ASSETS – Consist of donated Super Loki rockets stated at the lower of cost or market.

CAPITAL ASSETS – Are defined as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets are recorded at cost when purchased or at fair market value when donated. Additions, improvements and expenditures for repairs and maintenance that extend the lives of assets are capitalized. Other expenditures for repairs and maintenance are charged to expense as incurred. The carrying amount and accumulated depreciation of assets that are sold or retired are removed from the accounts in the year of disposal and any resulting gain or loss is included in results of operations.

Depreciation is provided using the straight-line method over the useful lives of the various classes of depreciable assets. The estimated useful lives of the property and equipment range from 1 to 27 years.

ACCRUED COMPENSATED ABSENCES - Space Florida's reporting of accrued compensated absences has been recorded in accordance with GASB Statement No. 16. A liability is accrued for an employee's right to receive compensation for future absences when certain conditions are met.

SPACE FLORIDA

Notes to Financial Statements

June 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED REVENUES - Include amounts collected before the revenue recognition criteria are met. The deferred items consist of refundable prepaid launch fees.

NET ASSETS - Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. At June 30, 2007, restricted net assets consist primarily of cash received and unexpended in connection with a specific State-funded project. When both restricted and unrestricted resources are available for use, generally it is Space Florida's policy to use restricted resources first, then unrestricted resources as needed.

NOTE 3 - CASH

At June 30, 2007, the carrying amount of Space Florida's deposits was \$8,364,946 and the bank balance was \$8,595,341. These deposits consisted of interest and non-interest bearing demand accounts that were entirely insured by federal depository insurance or by collateral held by Space Florida's agent, pursuant to the Florida Security for Public Deposits Act (the Act). The Act requires that Space Florida maintain deposits only in "qualified public depositories". All qualified public depositories must deposit with the State Treasurer eligible collateral in such amounts as required by the Act. Should a default or insolvency occur, the State Treasurer would implement procedures for payment of losses according to the validated claims of Space Florida. Therefore, the Space Florida's deposits are considered to be fully insured.

Florida Statute 331.309 authorizes Space Florida to select as a depository any qualified public depository as defined in Florida Statute 280.02. Space Florida may also deposit funds with the State Treasury.

Cash at June 30, 2007, consists of the following:

Demand deposits	<u>\$ 8,364,946</u>
Classified as:	
Cash	\$ 5,646,696
Restricted cash	<u>2,718,250</u>
	<u>\$ 8,364,946</u>

NOTE 4 – DUE FROM GOVERNMENTS

Due from governments is comprised of \$1,600,144 of State appropriations for operations.

SPACE FLORIDA

Notes to Financial Statements

June 30, 2007

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the period from inception (September 1, 2006) to June 30, 2007 was as follows:

	Balance September 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 257,958	\$ -	\$ 257,958
Total capital assets not being depreciated	-	257,958	-	257,958
Capital assets, being depreciated:				
SRMU storage facility	-	8,517,611	-	8,517,611
Space Operations and Control Center	-	677,080	(677,080)	-
RLV hangar and office space	-	2,833,472	-	2,833,472
Space Life Sciences Lab	-	24,151,656	-	24,151,656
Furniture, equipment and vehicles	-	496,537	(150,801)	345,736
Total capital assets being depreciated	-	36,676,356	(827,881)	35,848,475
Less accumulated depreciation for:				
SRMU storage facility	-	(354,900)	-	(354,900)
Space Operations and Control Center	-	(40,302)	40,302	-
RLV hangar and office space	-	(262,358)	-	(262,358)
Space Life Sciences Lab	-	(745,486)	-	(745,486)
Furniture, equipment and vehicles	-	(79,616)	19,836	(59,780)
Total accumulated depreciation	-	(1,482,662)	60,138	(1,422,524)
Total capital assets, being depreciated, net	-	35,193,694	(767,743)	34,425,951
Capital assets, net	\$ -	\$ 35,451,652	\$ (767,743)	\$ 34,683,909

Impairment Loss

During the period from inception (September 1, 2006) to June 30, 2007, management determined that the Space Operations and Control Center equipment will no longer be utilized by Space Florida and impaired the equipment. In accordance with GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, such an asset should be recorded at the lesser of its carrying value or fair market value. Given the unique nature of the asset and limited resale market of the asset, Space Florida determined the fair market value to be \$0. Accordingly, Space Florida reported an impairment loss of \$636,778 in the Statement of Revenues, Expenses and Changes in Net Assets.

SPACE FLORIDA

Notes to Financial Statements

June 30, 2007

NOTE 6 - CONDUIT DEBT

As defined by GASB Interpretation No. 2, conduit debt obligations are certain limited obligation debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although the conduit debt obligations bear the name of the governmental entity, the entity has no obligation to repay the conduit debt beyond the resources provided by a lease or loan to the third party. GASB has concluded that conduit debt does not create a liability for the governmental entity and, therefore, is not reflected on the entity's basic financial statements. Space Florida has participated in the issuance of conduit debt projects that are not reflected on the statement of net assets of its basic financial statements.

The conduit debt transactions discussed below are limited-obligation debts of Space Florida and are payable solely from the pledged revenues described in the respective debt agreements. Neither the faith nor credit, nor the taxing power of Space Florida, the State of Florida, nor any subdivision thereof is pledged to the payment of the debts.

During January 2000, the Florida Space Authority entered into an agreement to assist in the financing and modification of Launch Complex 41 for use of the Atlas V rocket. This project was completed during the year ended June 30, 2003. The original value of the Florida Space Authority assisted financing on this project was approximately \$294,117,000. With the dissolution of the Florida Space Authority on September 1, 2006, the conduit debt was assigned to Space Florida. As of June 30, 2007, the outstanding balance on Space Florida assisted financing was approximately \$117,889,000. The debt is being repaid from the rental revenue received on the Atlas V facility.

During July 2005, the Florida Space Authority entered into an agreement to assist in financing related to the construction of a Shuttle Launch Experience facility to be located at the Kennedy Space Center. The project is not yet complete as of June 30, 2007. However, the total value of Space Florida assisted financing is not to exceed \$35,000,000. With the dissolution of the Florida Space Authority on September 1, 2006, the conduit debt was assigned to Space Florida. As of June 30, 2007, the outstanding balance on Space Florida assisted financing was approximately \$33,618,000. The debt will be repaid from a percentage of ticket sale revenues at the Kennedy Space Center Visitor Complex.

During March 2007, Space Florida entered into an agreement to assist in additional financing related to the construction of a Shuttle Launch Experience facility to be located at the Kennedy Space Center. The project is not yet complete as of June 30, 2007. However, the total value of Space Florida assisted additional financing is not to exceed \$5,000,000. As of June 30, 2007, the outstanding balance on Space Florida assisted additional financing was approximately \$2,635,000. The debt will be repaid from a percentage of ticket sale revenues at the Kennedy Space Center Visitor Complex.

NOTE 7 - SRMU STORAGE FACILITY

On May 15, 2007, Space Florida entered into an agreement to lease the Titan IV Solid Rocket Motor Upgrade (SRMU) storage facility constructed at Camp Blanding, Florida. The net carrying value of this facility at June 30, 2007 was \$8,162,711. The lease currently extends through September 30, 2007. However, the tenant may terminate the lease with a 90-day written notice. During the period from inception (September 1, 2006) to June 30, 2007, Space Florida recorded \$147,693 of lease revenue.

SPACE FLORIDA

Notes to Financial Statements

June 30, 2007

NOTE 7 - SRMU STORAGE FACILITY (CONTINUED)

The SRMU storage facility was constructed on land owned by the State of Florida Armory Board. The annual land use fee is \$140,000 and is payable by Space Florida in monthly installments of \$11,667.

If the current tenant chooses not to renew the lease and no suitable lease agreement is secured with another tenant, management believes the service utility of the facility would be significantly reduced. Under such circumstances, and in accordance with GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, Space Florida would be required to report an impairment loss, not to exceed the then carrying value of the facility, which is expected to be approximately \$8,057,000 at the end of the term of the lease. However, management believes the current tenant will continue to renew the lease. Accordingly, no impairment loss has been recorded as of June 30, 2007.

Space Florida also stores the majority of its inventory of Super Loki rockets (Note 2) at the Camp Blanding facility. Depending on how the facility is ultimately utilized, as described above, Space Florida may be forced to either destroy or donate its stock of Super Loki rockets. If such circumstances occurred, Space Florida would be required to record a loss of approximately \$1,064,000, the carrying value of the rockets stored at its Camp Blanding facility. As of June 30, 2007, management believes it will be able to continue to store the rockets at its Camp Blanding facility and have, therefore, not recorded a contingent loss.

NOTE 8 – SPACE LIFE SCIENCES LAB

During 2004, the Florida Space Authority completed construction of the Space Life Sciences Lab (SLSL) and entered into an agreement to lease the facility. With the dissolution of the Florida Space Authority on September 1, 2006, the asset and lease was assigned to Space Florida. The net carrying value of the facility at June 30, 2007 was \$23,406,171. The lease term extends through September 30, 2007. The tenant may extend the lease for one additional one-year term. During the period from inception (September 1, 2006) to June 30, 2007, Space Florida recorded \$1,263,080 of lease revenue.

The SLSL lease agreement also provides that the tenant is responsible for the operation and maintenance of the facility. However, Space Florida makes monthly payments to the tenant to cover such expenses. During the period from inception (September 1, 2006) to June 30, 2007, Space Florida recorded \$421,027 of operations and maintenance expenses related to the SLSL facility.

NOTE 9 - RETIREMENT PLAN

Effective September 1, 2006, Space Florida established a Simplified Employee Pension Plan (the Plan). The Plan eliminates the taxation required for the social security element of the Federal Insurance Contributions Act (FICA) for all participants and for Space Florida. Employees may not contribute to social security while participating in the Plan.

All employees of Space Florida are eligible to participate in the Plan immediately. Participants vest at 100% upon entering the Plan and retirement is set at age 65. The Plan is non-contributory for employees and, therefore, all contributions are the obligation of Space Florida. Contributions to the Plan for the period from inception (September 1, 2006) to June 30, 2007 were \$92,292 and represented 15% of total eligible employee gross compensation for the ten months.

SPACE FLORIDA

Notes to Financial Statements

June 30, 2007

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Economic Dependency

Space Florida received approximately 76% of its total support from State legislative appropriations during the period from inception (September 1, 2006) to June 30, 2007.

State Appropriated Funds & Federal Contracts

Amounts received from State and Federal agencies are subject to audit and adjustment at the discretion of these entities. If expenditures are disallowed as a result of these audits, the claims for reimbursement to the agency would become a liability of Space Florida.

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SUPPLEMENTARY INFORMATION

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SPACE FLORIDA

Schedule of Travel, Entertainment and Incidental Expenses

For the period from inception (September 1, 2006) to June 30, 2007

Domestic:

Travel and incidental (1)	\$ 154,587
Entertainment	<u>8,386</u>
Total domestic	<u>162,973</u>

Foreign:

Travel and incidental (1)	3,019
Entertainment	<u>-</u>
Total foreign	<u>3,019</u>
Total	<u><u>\$ 165,992</u></u>

(1) Incidental expenses consist of telephone charges and gratuities

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Hoyman Dobson

**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Board of Directors
Space Florida

We have audited the financial statements of Space Florida as of and for the period from inception (September 1, 2006) to June 30, 2007, and have issued our report thereon dated September 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Space Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Space Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Space Florida's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Space Florida's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Space Florida's financial statements that is more than inconsequential will not be prevented or detected by the Space Florida's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Space Florida's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Space Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Space Florida's Board of Directors, management, State awarding agencies, specific legislative or regulatory bodies and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.



Hoyman Dobson
Melbourne, Florida
September 28, 2007



Hoyman Dobson

**Independent Auditors' Report on Compliance with Requirements Applicable to
Each Major State Project and on Internal Control Over Compliance in
Accordance with Chapter 10.550, Rules of the Auditor General**

To the Board of Directors
Space Florida

Compliance

We have audited the compliance of Space Florida with the types of compliance requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that are applicable to each of its major state projects for the period from inception (September 1, 2006) to June 30, 2007. Space Florida's major state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state projects is the responsibility of Space Florida's management. Our responsibility is to express an opinion on Space Florida's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Auditor General. Those standards, and Chapter 10.550, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about Space Florida's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Space Florida's compliance with those requirements.

In our opinion, Space Florida complied, in all material respects, with the requirements referred to above that are applicable to each of its major state projects for the period from inception (September 1, 2006) to June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with Chapter 10.550, Rules of the Auditor General, and which is described in the accompanying schedule of findings and questioned costs as item 2007-01.

Internal Control Over Compliance

The management of Space Florida is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state projects. In planning and performing our audit, we considered Space Florida's internal control over compliance with requirements that could have a direct and material effect on a major state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Chapter 10.550, Rules of the Auditor General.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major state project being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of Space Florida's Board of Directors, management, State awarding agencies, specific legislative or regulatory bodies, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.



Hoyman Dobson
Melbourne, Florida
September 28, 2007

SPACE FLORIDA

Schedule of Findings and Questioned Costs

For the period from inception (September 1, 2006) to June 30, 2007

SECTION A – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditors' report issued:

Internal control over financial reporting:

Unqualified

Material weakness(es) identified?

_____ Yes X no

Reportable conditions(s) identified not considered
to be material weaknesses?

_____ Yes X none reported

Noncompliance material to financial statements noted?

_____ Yes X no

State Awards

Internal Control over major projects:

Material weakness(es) identified?

_____ Yes X no

Reportable conditions(s) identified not considered
to be material weaknesses?

_____ Yes X none reported

Type of auditors' report issued on compliance
for major programs and projects:

Unqualified

Any audit findings disclosed that are required to be reported
under Rule 10.557?

 X Yes _____ no

Identification of major projects:

Name of State Project

State CSFA No.

Infrastructure Agreement

31.004

Funding and Program Agreement

31.004

Dollar threshold used to distinguish
between Type A and Type B programs:

\$ 300,000

Auditee qualified as a low-risk auditee?

_____ yes X no

SPACE FLORIDA

Schedule of Findings and Questioned Costs (Continued)

For the period from inception (September 1, 2006) to June 30, 2007

SECTION B – FINDINGS – FINANCIAL STATEMENTS

Same as reported in Section C below.

SECTION C – FINDINGS AND QUESTIONED COSTS – MAJOR STATE PROJECTS

2007-01 Infrastructure Agreement Quarterly Deliverables

Criteria: Paragraph 14 of the Infrastructure Agreement between The Executive Office of the Governor Office of Tourism, Trade and Economic Development and Space Florida states that Space Florida shall report on a quarterly basis its expenditures with minority and women owned businesses. If no expenditures were made to minority or women owned businesses, Space Florida shall submit a statement to this effect.

Condition: Space Florida has timely submitted its quarterly performance reports in accordance with the Agreement; however, has not reported on its expenditures with minority and women owned business or submitted a statement that there were no such expenditures.

Effect: Space Florida is not in compliance with the Infrastructure Agreement between The Executive Office of the Governor Office of Tourism, Trade and Economic Development and Space Florida.

Questioned Costs: None

Context: There were no expenditures made to minority or women owned businesses.

Recommendation: We recommend Space Florida report its expenditures with minority and women owned businesses to the State, in accordance with the Infrastructure Agreement.

Management's Response: Management submitted a statement that no expenditures were made to minority or women owned businesses to the State in accordance with the Infrastructure Agreement on August 31, 2007 and will continue to report such activity as required.

SPACE FLORIDA

Schedule of Expenditures of State Financial Assistance

For the period from inception (September 1, 2006) to June 30, 2007

<u>State Agency</u>	<u>CSFA Number</u>	<u>Contract/Grant Number</u>	<u>Expenditures</u>	<u>Transfer to Subrecipients</u>
Office of Tourism, Trade and Economic Development				
Direct Projects				
Infrastructure Agreement	31.004	OT-07-059	\$ 711,819	\$ -
Funding and Program Agreement	31.004	OT-07-008	3,994,702	-
Funding and Program Agreement	31.004	OT-06-009	<u>123,618</u>	<u>-</u>
Total expenditures of State financial assistance			<u>\$ 4,830,139</u>	<u>\$ -</u>

Note: This schedule is prepared on the accrual basis of accounting.

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Hoyman Dobson

**Independent Auditors'
Management Letter Comments**

To the Board of Directors
Space Florida

We have audited the financial statements of Space Florida, as of and for the period from inception (September 1, 2006) to June 30, 2007, and have issued our report thereon dated September 28, 2007.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Compliance and Internal Control Over Financial Reporting, Independent Auditor's Report on Compliance and Internal Control over Compliance Applicable to each Major State Project, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated September 28, 2007, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554(l)(h)l.) require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been followed. There was no previous annual financial audit report for this entity since it was created September 1, 2006.

As required by the Rules of the Auditor General (Section 10.554(l)(h)2.), the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that Space Florida complied with Section 218.415, Florida Statutes.

The Rules of the Auditor General (Section 10.554(l)(h)3.) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we did not have any such findings.

The Rules of the Auditor General (Section 10.554(l)(h)4.) require disclosure in the management letter of the following matters if not already addressed in the auditor's reports on compliance and internal control or schedule of findings and questioned costs and are not clearly inconsequential: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures, (3) improper or inadequate accounting procedures (e. g., the omission of required disclosures from the financial

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statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed no matters required to be disclosed by the Rules of the Auditor General (Section 10.554(1)(h)4.).

The Rules of the Auditor General (Section 10.554(1)(h)5.) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The legal authority is disclosed in the footnotes. Space Florida has no component units.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.a.), a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that Space Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.b.), we determined that the annual financial report for Space Florida for the period from inception (September 1, 2006) to June 30, 2007, filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the period from inception (September 1, 2006) to June 30, 2007.

As required by the Rules of the Auditor General (Sections 10.554(h)6.c. and 10.556(7), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This management letter is intended solely for the information and use of Space Florida's Board of Directors, management, State awarding agencies and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.



Hoyman Dobson
Melbourne, Florida
September 28, 2007